

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>Tuscola County Road Commission</i>	County <i>Tuscola</i>
Audit Date <i>12/31/05</i>	Opinion Date <i>3/9/06</i>	Date Accountant Report Submitted to State: <i>5/2/06</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <i>Anderson, Tuckey, Bernhardt & Doran, P.C.</i>			
Street Address <i>715 East Frank Street</i>	City <i>Laro</i>	State <i>MI</i>	ZIP <i>48723</i>
Accountant Signature <i>James J. Bernhardt, CPA.</i>			

TUSCOLA COUNTY ROAD COMMISSION

Caro, Michigan

Report on Financial Statements
(with required supplementary and
additional information)

December 31, 2005

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March 9, 2006

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Tuscola County Road Commission
Caro, Michigan 48723

We have audited the accompanying financial statements of the Tuscola County Road Commission, Caro, Michigan, a component unit of the County of Tuscola, as of and for the year ended December 31, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Tuscola County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Tuscola County Road Commission, Caro, Michigan, as of December 31, 2005, and for the year then ended in conformity with generally accepted accounting principles.

As described in Note 1, the Road Commission has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments as of December 31, 2003.

The management's discussion and analysis on pages I through VII and budgetary comparison information on pages 19 & 20 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tuscola County Road Commissions' basic financial statements. The additional information on pages 21 to 30 is presented for the purposes of additional information and has been subjected to the auditing procedures

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

**TUSCOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION & ANALYSIS
Year Ending December 31, 2005**

Using this Annual Report

The Tuscola County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the Road Commission's financial activity; (c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and the changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the Road Commission's major fund begins on page 2. The fund financial statements begin on page 3 and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services.

We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased by 3.8% from \$61,931,384 to \$64,293,286 for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased \$2,042,456. Restricted net assets, those restricted mainly for Act 51 purposes, increased \$319,446. The primary reason for the increase in unrestricted net assets was an increase of the Road Commission's Capital Assets by 6.7% for the year 2005 compared to 2004.

Net assets as of year ended December 31, 2005 follows:

	2005	2004	Variance	%
Current and Other Assets	\$ 4,481,792	\$ 4,042,418	\$ 439,374	11%
Capital Assets	61,466,829	58,435,829	3,031,000	5%
Total Assets	<u>\$ 65,948,621</u>	<u>\$ 62,478,247</u>	<u>\$ 3,470,374</u>	6%
Long-Term Debt Outstanding	100,000	150,000	(50,000)	-33%
Other Liabilities	1,555,335	396,863	1,158,472	292%
Total Liabilities	<u>1,655,335</u>	<u>546,863</u>	<u>1,108,472</u>	203%
Net Assets				
Invested in Capital Assets				
Net of Debt	61,366,829	58,285,829	3,081,000	5%
Restricted	801,099	481,653	319,446	66%
Unrestricted	2,125,358	3,163,902	(1,038,544)	-33%
Total Net Assets	<u>64,293,286</u>	<u>61,931,384</u>	<u>2,361,902</u>	4%
Total Net Assets & Liabilities	<u>\$ 65,948,621</u>	<u>\$ 62,478,247</u>	<u>\$ 3,470,374</u>	

A summary of changes in net assets for the year ended December 31, 2005 follows:

	Governmental Activities 2005	Governmental Activities 2004	Favorable (Unfavorable) Variance	Variance %
Program Revenue:				
Federal Grants	\$141,666	\$ 1,032,146	\$ (890,480)	-86%
State Grants	7,137,419	7,897,634	(760,215)	-10%
Contributions From Local Units	2,011,264	1,441,671	569,593	40%
Investment Earnings	35,199	26,662	8,537	32%
General Revenue:				
Taxes	1,392,088	1,330,841	61,247	5%
Salvage Sales	10,064	6,168	3,896	63%
Gain on Equipment Disposal	11,650	53,199	(41,549)	-78%
TOTAL REVENUES	\$10,739,350	11,788,321	(1,048,971)	-9%
Program Expenses:				
Primary Road Maintenance	1,256,299	1,066,192	190,107	18%
Local Road Maintenance	2,489,084	2,313,025	176,059	8%
State Trunkline Expense	1,404,504	1,174,633	229,871	20%
Net Equipment Expense	2,661,660	2,362,405	299,255	13%
Net Administrative Expense	565,901	488,743	77,158	16%
TOTAL EXPENDITURES	8,377,448	7,404,998	972,450	13%
Increase (Decrease) in Net Assets	\$2,361,902	\$ 4,383,323	\$ (2,021,421)	-46%

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2005, the fund balance of the General Operations Fund decreased \$793,735 as compared to an increase of \$331,458 in the fund balance for the year ended December 31, 2004. Total revenues were \$10,670,469, a decrease of \$1,206,454 as compared to last year. This change in revenues resulted mainly from a

decrease in the Road Commission's share of Motor Vehicle Highway Funds and funding for Federal and State Aid projects; offset slightly by increased township spending.

Total expenditures were \$11,464,204, a decrease of \$81,1261 as compared to last year; less than 1%. Reduced expenses included expenses associated with Federal and State Aid projects.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was completed.

The ending revenue budget for 2005 was lower than the original budget by \$2,728,855. This was due to Federal and State Aid funding lower than that anticipated for 2005. The remaining funding for these projects should be completed in 2006.

Road Commission ending expenditures budget for 2005 was also lower than the original budget by \$1,714,968. This was due to the lower expense as related to the Federal and State Aid funding projects planned for 2005, in particular Local Structures Heavy Maintenance and Local Roads Heavy Maintenance. As with the revenue, these expenses should be incurred during year 2006.

	2005 Original <u>Budget</u>	2005 Final <u>Budget</u>
Revenues:		
Motor Vehicle Highway Funds	\$5,900,000	\$5,700,000
State Trunkline Revenue	1,100,000	1,100,000
Federal/State Funds:		
Snow Emergency Funds	-	-
Primary Roads	-	-
Local Roads	2,012,500	908,245
Primary Roads Bridges	-	-
Local Roads Bridges	878,750	-
County Raised Funds:		
Primary Road Millage	850,000	850,000
Local Road Bridge Millage	435,000	430,000
Township Contributions	2,425,000	1,800,000
Other Contributions	-	-
Other Revenues:		
Interest Earned	20,000	26,000
Equipment Rentals	2,000,000	2,100,000
Gain (Loss) on Disposal of Equipment	31,400	22,200
Depreciation & Depletion Credits	420,000	400,000
Equipment Retirements	2,650	5,000
Salvage Sales	5,000	10,000
TOTAL REVENUES	16,080,300	13,351,445
Expenditures:		
Primary Roads Construction	-	-
Primary Roads Heavy Maintenance	2,024,000	2,213,000
Primary Roads Routine Maintenance	1,100,000	1,183,000
Local Roads Construction	-	-
Local Roads Heavy Maintenance	5,100,000	3,700,000
Local Roads Routine Maintenance	2,260,000	2,276,500
Primary Structures Heavy Maintenance	317,000	60,985
Primary Structures Routine Maintenance	50,000	18,000
Local Structures Heavy Maintenance	1,092,000	138,000
Local Structures Routine Maintenance	20,000	60,000
State Trunkline Expense	1,100,000	1,100,000
Equipment Expense-Direct	1,200,000	1,100,000
Equipment Expense-Indirect	600,000	650,000
Equipment Expense-Operating	200,000	350,000
Administrative Expense	510,000	500,000
Capital Outlay	507,300	1,015,847
MDOT - Audit Adjustment	-	-
TOTAL EXPENDITURES	16,080,300	14,365,332

Capital Assets

As of December 31, 2005, the Road Commission had \$97,495,109 invested in capital assets as follows:

Capital Assets Not Being Depreciated:	2005	2004
Land and Land Improvements	\$24,086,874	22,308,637
Other Capital Assets:		
Depleteable Assets	282,718	282,718
Buildings	2,245,764	2,171,197
Bridges	18,585,697	18,437,236
Roads	46,704,745	43,236,919
Signals & Guardrails	288,245	262,503
Road Equipment	4,760,261	4,167,604
Shop Equipment	142,530	140,997
Engineers Equipment	54,090	54,090
Office Equipment and Furniture	344,185	336,091
Total Capital Assets at Historic Cost	97,495,109	91,397,992
Total Accumulated Depreciation	36,028,280	32,962,163

Current year's major additions included the following:

Trucks/Equipment	\$ 760,150
Buildings	74,567
Roads	3,467,826
Bridges	148,461
Land improvements	1,778,237
Signals & guardrails	25,742
Total	<u>\$6,254,983</u>

Debt

The Road Commission currently experiences a relatively debt free status. In 2004, a gravel pit was purchased for approximately \$200,000. An installment purchase agreement was executed with a current balance of \$100,000.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors was Federal and State Aid funding. Federal and State Aid funding will include such projects as 4 miles of Dodge Road and 5 miles of Saginaw Road with paved bike paths.

The Board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Tuscola County's transportation system. Therefore, the Board attempts to spend the public's money wisely and equitably, and in the best interest of the motoring public and the citizens of Tuscola County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Tuscola County Road Commission administrative offices at (989) 673-2128.

BASIC FINANCIAL STATEMENTS

TUSCOLA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS

	GOVERNMENTAL ACTIVITIES	
	DECEMBER 31,	
	2005	2004
<u>ASSETS</u>		
Cash & cash equivalents	\$ 1,056,142	\$ 1,146,760
Accounts receivable	696,430	537,853
Inventory	334,395	308,809
Prepaid insurance	121,045	128,253
Deferred expense	72,958	108,249
Capital assets	97,495,109	91,397,992
Less accumulated depreciation	(36,028,280)	(32,962,163)
Restricted assets:		
Cash & cash equivalents	801,099	481,653
Taxes receivable	1,399,723	1,330,841
TOTAL ASSETS	<u>\$ 65,948,621</u>	<u>\$ 62,478,247</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 1,232,707	\$ 113,138
Accrued liabilities	89,197	79,135
Township advances	257	27,664
Advance - State of Michigan	217,962	155,959
Noncurrent Liabilities:		
Land contract payable	100,000	150,000
Sick pay payable	15,212	20,967
Total Liabilities	<u>1,655,335</u>	<u>546,863</u>
<u>NET ASSETS</u>		
Investment in capital fixed assets		
net of related debt	61,366,829	58,285,829
Designated for bridge/road construction	801,099	481,653
Undesignated	2,125,358	3,163,902
Total Net Assets	<u>64,293,286</u>	<u>61,931,384</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 65,948,621</u>	<u>\$ 62,478,247</u>

The accompanying notes are an integral part of the financial statements.

TUSCOLA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES

	DECEMBER 31,	
	2005	2004
Program Expenses		
Primary Road Maintenance	\$ 1,256,299	\$ 1,066,192
Local Road Maintenance	2,489,084	2,313,025
State Trunkline	1,404,504	1,174,633
Net Equipment Expense	2,661,660	2,362,405
Net Administrative Expense	565,901	488,743
Total Program Expenses	<u>8,377,448</u>	<u>7,404,997</u>
Program Revenue		
Federal Grants	141,666	1,032,146
State Grants	7,137,419	7,897,634
Contributions From Local Units	2,011,264	1,441,671
Investment Earnings	35,199	26,662
Total Program Revenue	<u>9,325,548</u>	<u>10,398,113</u>
Net Program Revenue	<u>948,100</u>	<u>2,993,116</u>
General Revenue		
Property Taxes	1,392,088	1,330,841
Salvage Sales	10,064	6,168
Gain on Equipment Disposal	11,650	53,199
Total General Revenue	<u>1,413,802</u>	<u>1,390,208</u>
Change in Net Assets	2,361,902	4,383,323
Net Assets Beginning of Year	<u>61,931,384</u>	<u>57,548,061</u>
Net Assets End of Year	<u><u>\$ 64,293,286</u></u>	<u><u>\$ 61,931,384</u></u>

The accompanying notes are an integral part of the financial statements.

**TUSCOLA COUNTY ROAD COMMISSION
BALANCE SHEET**

	GOVERNMENTAL FUND TYPE	
	GENERAL OPERATING FUND	
	DECEMBER 31,	
	2005	2004
<u>ASSETS</u>		
Cash & cash equivalents	\$ 1,056,142	\$ 1,146,760
Accounts receivable	696,430	537,853
Inventory	334,395	308,809
Prepaid insurance	121,045	128,253
Deferred expense	72,958	108,249
Restricted assets:		
Cash & cash equivalents	801,099	481,653
Taxes receivable	1,399,723	1,330,841
TOTAL ASSETS	<u>\$ 4,481,792</u>	<u>\$ 4,042,418</u>
<u>LIABILITIES & FUND EQUITY</u>		
Liabilities:		
Accounts payable	\$ 1,232,707	\$ 113,138
Accrued liabilities	89,197	79,135
Township advances	257	27,664
Advance - State of Michigan	217,962	155,959
Payable from restricted assets:		
Deferred revenue	1,399,723	1,330,841
Total Liabilities	<u>2,939,846</u>	<u>1,706,737</u>
Fund Equity:		
Investment in general fixed assets		
Fund balance:		
Designated for bridge/road construction	801,099	481,653
Undesignated	740,847	1,854,028
Total Fund Equity	<u>1,541,946</u>	<u>2,335,681</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 4,481,792</u>	<u>\$ 4,042,418</u>

The Notes to the Financial Statements are an integral part of this statement.

TUSCOLA COUNTY ROAD COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS

	DECEMBER 31,	
	2005	2004
Total Fund Balances - Governmental Funds	\$ 1,541,946	\$ 2,335,681
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is:	97,495,109	91,397,992
Accumulated depreciation is:	(36,028,280)	(32,962,163)
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Deferred revenue	1,399,723	1,330,841
Land contract payable	(100,000)	(150,000)
Sick pay payable	(15,212)	(20,967)
Net Assets of Governmental Activities	<u>\$ 64,293,286</u>	<u>\$ 61,931,384</u>

The accompanying notes are an integral part of the financial statements.

TUSCOLA COUNTY ROAD COMMISSION
COMBINED STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGE IN FUND BALANCE
GENERAL OPERATING FUND

	GENERAL OPERATING FUND	
	YEAR ENDED DECEMBER 31,	
	2005	2004
REVENUE:		
State Funds:		
Motor vehicle highway funds	\$ 5,732,308	\$ 6,072,587
State trunkline revenue	1,375,061	957,230
State aid	30,050	867,817
Federal funds:		
Secondary	141,666	1,032,146
County raised funds:		
Township contributions	2,011,264	1,441,671
Other contributions	-	-
Property taxes	1,323,207	1,269,443
Other revenue:		
Installment Proceeds	-	150,000
Interest earned	35,199	26,662
Salvage sales	10,064	6,168
Gain (loss) Equipment Disposal	11,650	53,199
TOTAL REVENUE	10,670,469	11,876,923
EXPENDITURES:		
Primary heavy maintenance	2,177,960	2,837,881
Primary routine maintenance	1,238,812	1,065,379
Local heavy maintenance	3,093,845	2,423,178
Local routine maintenance	2,430,188	2,294,384
Primary structures heavy maintenance	31,041	65,174
Primary structures routine maintenance	17,488	812
Local structures heavy maintenance	117,420	1,164,095
Local structures routine maintenance	58,896	2,388
State trunkline maintenance and non-maintenance	1,404,504	1,174,633
Equipment expense - net	(190,860)	(323,371)
Administrative expense	571,656	489,725
Capital outlay - net	513,254	351,188
TOTAL EXPENDITURES	11,464,204	11,545,465
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(793,735)	331,458
FUND BALANCE - JANUARY 1	2,335,681	2,004,223
FUND BALANCE - DECEMBER 31	\$ 1,541,946	\$ 2,335,681

The accompanying notes are an integral part of the financial statements.

TUSCOLA COUNTY ROAD COMMISSION
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES

	DECEMBER 31,	
	2005	2004
Total net change in fund balances--governmental funds	\$ (793,735)	\$ 331,458
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities:		
Equipment retirements	(10,550)	(12,076)
Depreciation	(3,213,432)	(2,963,570)
Infrastructure	5,420,267	6,474,072
Capital outlay	834,716	641,059
Loan proceeds provide current financial resources to governmental funds, but entering into loan agreements increases long-term liabilities in the statement of Net Assets. Repayment on notes payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of Net Assets.		
	50,000	(150,000)
Net increase in revenue between the 2005 tax levy (\$1,399,723) and the 2004 tax levy collected during 2004 (\$1,323,207)		
	68,881	61,398
Sick pay is reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:		
Sick pay payable at the beginning of the year	20,967	21,949
Sick pay payable at the end of the year	(15,212)	(20,967)
Change in net assets of governmental activities	\$ 2,361,902	\$ 4,383,323

The accompanying notes are an integral part of the financial statements.

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Tuscola County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Tuscola County Road Commission.

Effective January 1, 2003, the Road Commission implemented the provisions of GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain significant changes in the statements include the following:

A management Discussion and Analysis (MD&A) section providing an analysis of the Road Commission's overall financial position and results of operations has been included in the financial statements.

Financial statements prepared using full accrual accounting for all of the Road Commission's activities, including infrastructure (roads, bridges, etc.).

A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

REPORTING ENTITY:

The Tuscola County Road Commission, established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Tuscola County Road Commission, a discretely presented component unit of Tuscola County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Tuscola County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (Continued):

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

CASH, AND CASH EQUIVALENTS:

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are recorded at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value. The Tuscola County Road Commission had no investments at December 31, 2005.

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

PROPERTY TAXES:

The Road Commission portion of the County property tax is levied each December 1, on the taxable value of property located in the County as of the preceding December 31. Assessed values are established annually by the County and are equalized by the State at 50% of approximated current market value. Real and personal property in Tuscola County for the 2004 levy had a State equalized valuation of \$1,636,313,402 and a taxable value of \$1,212,154,896.

In the government-wide financial statements, the property taxes receivable is recorded as revenue when the tax is levied in the current year.

Although the county's 2005 ad valorem tax is levied and collectible on December 1, 2005, it is the Road Commission's policy to recognize revenues from the current tax levy in the subsequent year. The proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements in the year collected. The tax receivable is offset to deferred revenue. The Road Commission's property tax rates for the 2004 levy were .4756 mills for voted bridges and .9559 mills for voted Primary Road.

INVENTORIES:

Inventories consisting of equipment parts and materials of \$204,697 and road materials of \$129,698 are valued at the lower of cost or market, determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations used.

PREPAID EXPENSES:

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

CAPITAL ASSETS:

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Tuscola County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Donated assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Tuscola County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission has retroactively capitalize the major infrastructure assets acquired on or before December 31, 2003, as permitted by GASB 34.

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

DEPRECIATION:

Depreciation expense amounted to \$3,202,535 and \$2,963,570 for the years ended December 31, 2005 and 2004. Depreciation is computed using the State Transportation Department Guidelines (Sum-of-the-years-digits) for road equipment and the straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

COMPENSATED ABSENCES (SICK & VACATION BENEFITS):

Under the terms of the 2002 contract between the Tuscola County Division of the Michigan County Road Commission Employee Association, a sickness and accident insurance program funded through a third-party insurance carrier has been established. The program provides a weekly benefit equal to 70% of the employee's regular weekly earnings for a maximum period of fifty-two weeks. Employees, who, as of August 1, 1990, have accumulated unused sick leave hours earned pursuant to the employer's sick leave plan that existed prior to this agreement, shall have said hours placed into a frozen sick leave bank.

If an employee retires pursuant to the retirement program or dies, the employee or his estate is entitled to payment of fifty percent of his accumulated unused sick leave bank at the rate of pay the employee was earning on December 31, 1989. If an employee is discharged, terminated or quits, he shall not be entitled to payment of any portion of his accumulated sick leave hours.

Hourly employees may accumulate up to 160 hours of paid vacation after which credits are discontinued until the paid vacation accumulation is reduced.

Salaried employees may carry over from year to year a maximum of five unused vacation days.

Accumulated unpaid sick and vacation pay at December 31, 2005, is recorded in the financial statements of the Road Commission as follows:

- A current year expenditure of the Operating Fund if paid out of expendable available financial resources;
- The current and long-term liability is reported on the government-wide financial statements.

ESTIMATES:

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

BUDGETARY PROCEDURES:

Budgetary procedures are established pursuant to Act 621, PA 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or prior to December 31 of each year, a proposed budget is submitted to the County Board of Road Commissioners for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to January 1 the budget is legally enacted through passage of a resolution.
4. Any revisions of the budget must be approved by the County Board of Road Commissioners.
5. Formal budgetary integration is employed as a management control device during the year for the Operating Fund.
6. The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the County Board of Road Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended.

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 3 – CASH & CASH EQUIVALENTS:

Deposits are carried at cost. Deposits of the Road Commission are at banks in the name of the Tuscola County Treasurer. Michigan Compiled Laws, section 129.91, authorizes the County to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard-rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund.

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Road Commission's deposits are in accordance with statutory authority.

The risk disclosures for the Road Commission's deposits and investments, as required by GASB Statement No. 3, are as follows:

	<u>CARRYING AMOUNT</u>		<u>FINANCIAL INSTITUTION BALANCES</u>
<u>DEPOSITS</u>	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	
Insured	\$ 100,000	\$300,000	\$ 400,000
Uninsured	<u>956,142</u>	<u>501,099</u>	<u>1,457,241</u>
Total Deposits	<u>\$1,056,142</u>	<u>\$801,099</u>	<u>\$1,857,241</u>

The Road Commission's insured deposits are insured by virtue of the Road Fund meeting certain specified criteria under FDIC regulations and obligations of the United States.

NOTE 4 - ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Motor vehicle highway funds	\$211,757	\$177,042
Due on county road agreements	479,218	354,574
Sundry accounts	5,455	6,237
Miscellaneous road agreements	<u>-</u>	<u>-</u>
TOTAL	<u>\$696,430</u>	<u>\$537,853</u>

The receivables consist primarily of charges to other agencies for services and materials provided by the Road Commission.

NOTE 5 - DEFERRED EXPENSE - FEDERAL AID - SECONDARY (F.A.S.):

The deferred expense, F.A.S., represents progress payments made by the Road Commission to the State Highway Department on various road projects not completed at December 31, 2005. These amounts will be either refunded or charged to expense as the projects are completed.

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 6 - CHANGES IN CAPITAL ASSETS:

A summary of changes in the recorded capital assets follows:

COST:

<u>CAPITAL ASSETS ACCOUNTS</u>	<u>BALANCE JANUARY 1, 2005</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE DECEMBER 31, 2005</u>
Land & right of ways	\$ 294,218	\$ -	-	\$ 294,218
Land improvements	22,014,419	1,778,237	-	23,792,656
Buildings	2,171,197	74,567	-	2,245,764
Bridges	18,437,236	148,461	-	18,585,697
Roads	43,236,919	3,467,826	-	46,704,745
Signals & guardrails	262,503	25,742	-	288,245
Equipment - roads	4,167,604	747,238	\$154,581	4,760,261
Equipment - shop	140,997	1,533	-	142,530
Equipment - heating	78,298	-	-	78,298
Equipment - radio	112,542	10,185	3,285	119,442
Equipment - office	139,152	1,194	-	140,346
Equipment - engineer	54,090	-	-	54,090
Depletable assets	282,718	-	-	282,718
Weighmaster equipment	<u>6,099</u>	<u>-</u>	<u>-</u>	<u>6,099</u>
TOTAL	<u>\$91,397,992</u>	<u>\$6,254,983</u>	<u>\$157,866</u>	<u>\$97,495,109</u>

ACCUMULATED DEPRECIATION:

<u>CAPITAL ASSETS ACCOUNTS</u>	<u>BALANCE JANUARY 1, 2005</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE DECEMBER 31, 2005</u>
Buildings	\$ 1,108,213	\$ 53,491	-	\$ 1,161,704
Bridges	8,047,371	441,892	-	8,489,263
Roads	19,842,611	2,385,652	-	22,228,263
Signals & guardrails	8,750	18,358	-	27,108
Equipment - roads	3,442,977	283,944	\$133,418	3,593,503
Equipment - shop	129,377	2,684	-	132,061
Equipment - heating	78,297	1	-	78,298
Equipment - radio	106,425	3,005	3,000	106,430
Equipment - office	108,027	10,051	-	118,078
Equipment - engineers	43,439	2,106	-	45,545
Depletable assets	40,577	1,351	-	41,928
Weighmaster equipment	<u>6,099</u>	<u>-</u>	<u>-</u>	<u>6,099</u>
TOTAL	<u>\$32,962,163</u>	<u>\$3,202,535</u>	<u>\$136,418</u>	<u>\$36,028,280</u>
PLANT & EQUIPMENT EQUITY	<u>\$58,435,829</u>			<u>\$61,466,829</u>

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 7 - ADVANCES - STATE OF MICHIGAN:

The balance of this account consists of the following:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Non-interest bearing notes for the purchase of equipment to maintain State trunk lines. The loan does not have to be repaid as long as a maintenance contract exists.	\$132,588	\$ 92,124
Non-interest bearing working capital advances for State trunkline maintenance. There are no repayment provisions.	<u>85,374</u>	<u>63,835</u>
TOTAL	<u>\$217,962</u>	<u>\$155,959</u>

NOTE 8 - LONG-TERM DEBT:

Long-term debt of the Road Commission consisted of and had the following provisions:

\$150,000 installment purchase agreement for 36.2 acres of land in Watertown Township dated January 16, 2004. Annual installments of \$50,000, plus interest at 5.5% begin January 16, 2005.

Annual Requirements to Amortize Long-Term Debt

	<u>December 31, 2005</u>	
<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$50,000	\$5,500
2007	<u>50,000</u>	<u>2,750</u>
	<u>\$100,000</u>	<u>\$8,250</u>

NOTE 9 - CHANGES IN GENERAL LONG-TERM DEBT:

The general long-term debt of the Road Commission may be summarized as follows:

	<u>BALANCE 12-31-04</u>	<u>INCREASE (DECREASE)</u>	<u>BALANCE 12-31-05</u>
Installment purchase agreement	\$150,000	(\$50,000)	\$100,000
Compensated absences	<u>20,967</u>	<u>(5,755)</u>	<u>15,212</u>
Total	<u>\$170,967</u>	<u>(\$55,755)</u>	<u>\$115,212</u>

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 10 - DEFERRED COMPENSATION PLAN:

The Road Commission offers all its employees a deferred compensation plan created in accordance with Internal Revenue Code Sec. 457. The plan, available to salaried employees, permits them to defer a portion of their current salary until the employee's termination, retirement, death, or unforeseeable emergency.

Plan assets shall be held in a trust, annuity contract or custodial accounts for the exclusive benefit of participants and their beneficiaries. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Tuscola County Road Commission's financial statements.

NOTE 11 - DEPLETION EXPENSES:

Depletion expense amounted to \$1,351 and \$385 for the years ended December 31, 2005 and 2004. Depletion was computed at a rate of thirteen cents per ton of gravel removed from various county gravel pits.

NOTE 12 - FUND BALANCE - DESIGNATED:

Fund balance is designated in the amount of \$801,099 and \$481,653 for the years ended December 31, 2005 and 2004. This represents the amount of bridge/road levy assets on hand at year-end. These assets must be used for the purpose of improvements to primary county roads and local road bridges.

NOTE 13 - OPERATING LEASES:

Commitments under various operating lease agreements for road equipment provide for minimum annual rental payments as follows:

2006	299,860
2007	240,075
2008	112,500
2009	<u>23,650</u>
TOTAL	<u>\$676,085</u>

There were no contingent rentals or sublease rentals associated with leases in effect at December 31, 2005.

NOTE 14 - PENSION PLANS:

The Road Commission maintains single-employer and cost-sharing multiple-employer defined benefit pension plans. One plan is administered by the Massachusetts Mutual Life Insurance Company (Massachusetts Mutual Plan) while the other plan is administered by the Municipal Employees' Retirement System of Michigan (MERS). The plans provide retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments and other plan changes are provided to members and beneficiaries at the discretion of the Board of County Road Commissioners. The Massachusetts Mutual Plan issues a publicly available financial report that includes financial statements and required supplementary information and that report may be obtained by writing to the Tuscola County Road Commission, 1733 Mertz Road, Caro, MI 48723. The MERS plan issues a report which may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 Canal Rd., Lansing, MI 48917 or by calling 1-800-767-6377.

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 14 - PENSION PLANS, (Continued):

Membership of the plans consisted of the following:

	MASSACHUSETTS MUTUAL PLAN	MERS PLAN
Actuarial valuation date	April 1, 2005	December 31, 2004
Retirees and beneficiaries receiving benefits	1	7
Terminated plan members entitled to but not yet receiving benefits	5	2
Active plan members	<u>44</u>	<u>19</u>
Total	<u>50</u>	<u>28</u>
Number of participating employers	1	1

The contribution requirements of plan members (both plans) and the Road Commission are established and may be amended by the Board of County Road Commissioners. Plan members of the Massachusetts Mutual Plan contribute \$.45 per hour, per month, excluding overtime. The MERS Plan is non-contributory for plan members. The Road Commission is required to contribute to an actuarially determined rate for both plans. The current rate for the MERS plan is 13.71% of covered payroll.

The Road Commission's annual pension cost and net pension obligation to the pension plans for the current year were:

	MASSACHUSETTS MUTUAL PLAN	MERS PLAN
Annual required contribution	\$14,752	\$108,108
Interest on net pension obligation	NONE	NONE
Adjustment to annual required contribution	<u>NONE</u>	<u>NONE</u>
Annual pension cost	14,752	108,108
Contributions made	<u>14,752</u>	<u>108,108</u>
Increase (decrease) in net pension obligation	NONE	NONE
Net pension obligation - beginning of year	<u>NONE</u>	<u>NONE</u>
Net pension obligation - end of year	<u>\$NONE</u>	<u>\$ NONE</u>

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 14 - PENSION PLANS, (Continued):

	MASSACHUSETTS MUTUAL PLAN	MERS PLAN
The annual required contribution was determined as part of actuarial valuations, using the entry age actuarial cost method, dated	April 1, 2005	December 31, 2004
The actuarial assumptions included:		
Investment rate of return (net of administrative expenses)	6.0%	8%
Projected salary increases of	N/A	N/A
Inflation component of	4.9%	4.5%
Actuarial cost method	Frozen Initial Liability	Individual Aggregate
Actuarial value of assets	Current Actuarial value	Current Actuarial value

For both plans, the assumptions did not include post-retirement benefit increases, which are funded by Road Commission appropriation when granted. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a longer period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>YEAR ENDED</u>	<u>ANNUAL PENSION COST (APC)</u>	<u>PERCENTAGE OF APC CONTRIBUTED</u>	<u>NET PENSION OBLIGATION</u>
A) Mass. Mutual Plan			
April 1, 2001	27,388	100%	NONE
April 1, 2002	13,202	100%	NONE
April 1, 2004	14,618	100%	NONE
April 1, 2005	14,961	100%	NONE
B) MERS Plan			
December 31, 2000	84,253	100%	NONE
December 31, 2001	97,204	100%	NONE
December 31, 2002	93,048	100%	NONE
December 31, 2004	106,668	100%	NONE

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 15 – RISK MANAGEMENT:

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Road Commission has joined together with other Road Commissions to form the Michigan County Road Commission Self-Insurance Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability insurance. The government pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Michigan County Road Commission Self-Insurance Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for large claims.

The government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Michigan County Road Commission Self-Insurance Pool publishes its own financial report annually, which can be obtained from Michigan County Road Commission Self-Insurance Pool, P. O. Box 14203, Lansing, MI 48901.

NOTE 16 - CONTINGENT LIABILITIES:

A number of suits are currently pending against the Road Commission for alleged negligence. Although some suits are substantial in amount, it is the opinion of Road Commission management that insurance coverage is adequate to cover all such matters.

The Road Commission is in the process of an underground storage tank removal and clean-up project at several sites. The total cost of the clean up is not yet known and the amount of insurance coverage, if any is uncertain.

NOTE 17 – OTHER POST EMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 14, the Road Commission provides post employment health care benefits for life to all employees who retire from the Road Commission with 85 points (years of service plus employee age). After August 15, 2002 employees who retire with the same 85 point system will receive health insurance for only 3 years. The expense the Road Commission incurred, which is funded currently, was approximately \$344,679 for the year ending December 31, 2005 and \$297,305 for the year ending December 31, 2004.

The Government Accounting Standards Board has recently released Statement Number 45, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended December 31, 2008.

REQUIRED SUPPLEMENTAL INFORMATION

TUSCOLA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES AND OTHER FINANCING
SOURCES - BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2005

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Federal funds:				
Secondary	\$ 2,891,250	\$ 878,245	\$ 141,666	\$ (736,579)
State Funds:				
State trunkline revenue	1,100,000	1,100,000	1,375,061	275,061
Motor vehicle highway funds	5,900,000	5,700,000	5,732,308	32,308
State aid	-	30,000	30,050	50
County raised funds:				
Township contributions	2,425,000	1,800,000	2,011,264	211,264
Property taxes	1,285,000	1,280,000	1,323,207	43,207
Interest earned	20,000	26,000	35,199	9,199
Salvage sales	5,000	10,000	10,064	64
Gain (loss) Equipment Disposal	31,400	22,200	11,650	(10,550)
TOTAL REVENUES	<u>\$ 13,657,650</u>	<u>\$ 10,846,445</u>	<u>\$ 10,670,469</u>	<u>\$ (175,976)</u>

The accompanying notes are an integral part of the financial statements.

TUSCOLA COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES AND OTHER FINANCING
USES - BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2005

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
EXPENDITURES:				
Primary heavy maintenance	\$ 2,024,000	\$ 2,213,000	\$ 2,177,960	\$ 35,040
Primary routine maintenance	1,100,000	1,183,000	1,238,812	(55,812)
Local heavy maintenance	5,100,000	3,700,000	3,093,845	606,155
Local routine maintenance	2,260,000	2,276,500	2,430,188	(153,688)
Primary structures heavy maintenance	317,000	60,985	31,041	29,944
Primary structures routine maintenance	50,000	18,000	17,488	512
Local structures heavy maintenance	1,092,000	138,000	117,420	20,580
Local structures routine maintenance	20,000	60,000	58,896	1,104
State trunkline maintenance and non-maintenance	1,100,000	1,100,000	1,404,504	(304,504)
Equipment expense - net			(190,860)	190,860
Administrative expense	510,000	500,000	571,656	(71,656)
Capital outlay - net	84,650	610,847	513,254	97,593
TOTAL EXPENDITURES	<u>\$ 13,657,650</u>	<u>\$ 11,860,332</u>	<u>\$ 11,464,204</u>	<u>\$ 396,128</u>

The accompanying notes are an integral part of the financial statements.

ADDITIONAL INFORMATION

TUSCOLA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>PRIMARY ROAD FUND</u>	<u>LOCAL ROAD FUND</u>	<u>COUNTY ROAD COMMISSION</u>	<u>TOTALS</u>
Total Revenues	\$ 6,767,544	\$ 2,496,460	\$ 1,406,465	\$ 10,670,469
Total Expenditures	<u>4,158,421</u>	<u>5,945,177</u>	<u>1,360,606</u>	<u>11,464,204</u>
Excess of Revenues Over (Under) Expenditures	<u>2,609,123</u>	<u>(3,448,717)</u>	<u>45,859</u>	<u>(793,735)</u>
Other Financing Sources (Uses):				
Optional Transfers In		3,448,717		3,448,717
Optional Transfers Out	<u>(3,448,717)</u>	<u></u>	<u></u>	<u>(3,448,717)</u>
Total Other Financing Sources (Uses)	<u>(3,448,717)</u>	<u>3,448,717</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures & Other Uses	(839,594)	-	45,859	(793,735)
Fund Balance - January 1, 2005	<u>2,181,321</u>	<u>-</u>	<u>154,360</u>	<u>2,335,681</u>
Fund Balance - December 31, 2005	<u>\$ 1,341,727</u>	<u>\$ -</u>	<u>\$ 200,219</u>	<u>\$ 1,541,946</u>

See the accompanying notes.

TUSCOLA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>PRIMARY ROAD FUND</u>	<u>LOCAL ROAD FUND</u>	<u>COUNTY ROAD COMMISSION</u>	<u>TOTALS</u>
Property taxes	\$ 883,702	\$ 439,505		\$ 1,323,207
State Aid:				
Michigan Trans. Fund:				
Engineering				-
Urban Road				-
Allocation	5,732,308			5,732,308
Federal Aid:				
Surface Tran. Program				-
D Funds - Federal	141,666	30,050		171,716
Bridge				-
Other Guardrail				-
Charges for services:				
State trunkline maintenance			\$ 1,375,061	1,375,061
Contributions:				
Township		2,011,264		2,011,264
Other Revenue:				
Installment loan proceeds				-
Salvage sales			10,064	10,064
Gain (loss) Equip. Disp.			11,650	11,650
Interest earned	9,868	15,641	9,690	35,199
Total Revenue	<u>\$ 6,767,544</u>	<u>\$ 2,496,460</u>	<u>\$ 1,406,465</u>	<u>\$ 10,670,469</u>

See the accompanying notes.

TUSCOLA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>PRIMARY ROAD FUND</u>	<u>LOCAL ROAD FUND</u>	<u>COUNTY ROAD COMMISSION</u>	<u>TOTALS</u>
Primary road:				
Heavy maintenance	\$ 2,177,960			\$ 2,177,960
Maintenance	1,238,812			1,238,812
Local road:				
Heavy maintenance		\$ 3,093,845		3,093,845
Maintenance		2,430,188		2,430,188
Primary road structures:				
Heavy maintenance	31,041			31,041
Maintenance	17,488			17,488
Local road structures:				
Heavy maintenance		117,420		117,420
Maintenance		58,896		58,896
State trunkline maintenance			\$ 1,404,504	1,404,504
Equipment expense - net	(36,263)	(110,699)	(43,898)	(190,860)
Administrative expense - net	216,129	355,527		571,656
Capital outlay - net	<u>513,254</u>			<u>513,254</u>
TOTAL EXPENDITURES	<u><u>\$ 4,158,421</u></u>	<u><u>\$ 5,945,177</u></u>	<u><u>\$ 1,360,606</u></u>	<u><u>\$ 11,464,204</u></u>

March 9, 2006

**INDEPENDENT AUDITORS' REPORT ON
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

Board of Commissioners
Tuscola County Road Commission
Caro, Michigan 48723

We have audited the component unit financial statements of Tuscola County Road Commission, Caro, Michigan, for the year ended December 31, 2005, and have issued our report thereon dated March 9, 2006. These component unit financial statements are the responsibility of the Tuscola County Road Commission, Caro, Michigan, management. Our responsibility is to express an opinion on these component unit financial statements based on our audit. We conducted our audit in accordance with generally accepted United States auditing standards and "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the component unit financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

TUSCOLA COUNTY ROAD COMMISSION
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2005

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	FEDERAL ITEM CODE	PROGRAM AWARD AMOUNT	REVENUE RECOGNIZED	PROGRAM EXPENDITURES
U.S DEPARTMENT OF TRANSPORTATION					
Pass Through Michigan Department of Transportation:					
Highway Research, Planning and Construction	20.205				
Federal Aid Secondary:					
Hurds Corner Road		54307A	876,009	<u>141,666</u>	<u>141,666</u>
TOTAL DEPARTMENT OF TRANSPORTATION				<u>\$ 141,666</u>	<u>\$ 141,666</u>

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2005

1. Contracted projects are administered by the Michigan Department of Transportation (MDOT) and will be included in its Single Audit. All of the Road Commission's Federal financial assistance for fiscal year 2005, except Emergency Relief Funds paid through the Federal Highway Administration, was received from contracted projects and, accordingly, the Road Commission had no Federal aid to administer, except as noted above. Consequently, a "Single Audit Report on Compliance with Requirement Applicable to Federal Financial Assistance Program Transactions" is not present.
2. Federal aid revenues recognized are based on Federal, State and Local participation in project contract payments as follows:

<u>PERCENTAGES</u>			
<u>PROGRAM TITLE</u>	<u>FEDERAL SHARE</u>	<u>STATE SHARE</u>	<u>LOCAL SHARE</u>
Secondary Road (A)	66.00	14.00	20.00

3. Program expenditures represent the total actual 2005 Federal Financial Assistance Program expenditures eligible for Federal participation.

March 9, 2006

**INDEPENDENT AUDITORS' COMPLIANCE REPORT BASED
ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"**

Board of Commission
Tuscola County Road Commission
Caro, Michigan 48723

We have audited the component unit financial statements of Tuscola County Road Commission, Caro, Michigan, as of and for the year ended December 31, 2005 and have issued our report thereon dated March 9, 2006.

We conducted our audit in accordance with United States generally accepted auditing standards and "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to the Tuscola County Road Commission, Caro, Michigan, is the responsibility of the Tuscola County Road Commission, Caro, Michigan, Management. As part of obtaining reasonable assurance about whether the component unit financial statements are free of material misstatement, we performed tests of the Tuscola County Road Commission's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, Tuscola County Road Commission, Caro, Michigan, complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Tuscola County Road Commission had not complied, in all material respects, with those provisions.

This report is intended for the information of the Board of Commissioners, management, and cognizant agency and other agencies as identified in the schedule of federal financial assistance. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

March 9, 2006

**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL
CONTROL STRUCTURE IN ACCORDANCE WITH
"GOVERNMENT AUDITING STANDARDS"**

Board of Commissioners
Tuscola County Road Commission
Caro, Michigan 48723

We have audited the component unit financial statements of Tuscola County Road Commission, Caro, Michigan, for the year ended December 31, 2005, and have issued our report thereon dated March 9, 2006.

We conducted our audit in accordance with United States generally accepted auditing standards and "*Government Auditing Standards*", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

In planning and performing our audit of the component unit financial statements of Tuscola County Road Commission, Caro, Michigan, for the year ended December 31, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control structure.

The management of the Tuscola County Road Commission, Caro, Michigan, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of component unit financial statements in accordance with generally accepted accounting control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- General Ledger

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Board of Commissioners
March 9, 2006

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the component united financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the Tuscola County Road Commission in a separate comments and recommendations letter.

This report is intended for the information of the Board of Commissioners, management and the cognizant agency and any other agencies as listed in the schedule of federal financial assistance. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

TUSCOLA COUNTY ROAD COMMISSION
Pension Plan
Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) - ENTRY AGE	UNFUNDED AAL (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
Massachusetts Mutual Plan						
April 1, 2002	\$ 243,862	\$ 399,286	\$ (196,456)	61.1%	\$ 2,038,660	9.6%
April 1, 2003	178,893	381,499	(211,499)	46.9%	2,287,018	9.3%
April 1, 2004	141,138	433,863	(303,970)	32.5%	2,310,579	13.2%
April 1, 2005	157,793	464,021	(333,339)	34.0%	2,487,412	13.4%
MERS Plan						
December 31, 2001	\$ 1,404,772	\$ 2,107,410	\$ (702,638)	66.7%	\$ 777,814	90.3%
December 31, 2002	1,617,363	2,329,438	(712,075)	69.4%	725,248	98.1%
December 31, 2003	1,901,863	2,758,692	(856,829)	68.9%	767,401	111.6%
December 31, 2004	2,105,045	3,068,059	(963,014)	68.6%	788,509	122.1%

March 9, 2006

To the Board of Commissioners
Tuscola County Road Commission
Caro, Michigan 48723

The following comments relate to situations brought to our attention during the course of our recent examination of the Tuscola County Road Commission financial statements for the year ended December 31, 2005, and are submitted for your evaluation and consideration. We would like to emphasize that since our examination was conducted for the purpose of expressing an opinion on the aforementioned financial statements, these comments are not necessarily all inclusive.

The following recommendation and comment is submitted to you for your consideration. We will cooperate to our fullest ability with the Board and management in implementing this recommendation.

The Government Accounting Standards Board has recently released Statement Number 45, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended December 31, 2008.

We recommend that the board contact an actuary to determine the amount of the liability that will have to be recorded to comply with this new requirement.

We will review the status of this comment during our next audit engagement. We have already discussed this issue with management, and we will be pleased to discuss it in further detail at your convenience.

This report is intended solely for the information and use of the Tuscola County Road Commission, management and others within the administration and is not intended to be and should not be used by anyone other than these specified parties

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS